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INTERNATIONAL MONETARY DEVELOPMENTS: The dollar closed lower in almost all European currency markets yesterday, although substantially above last week's low point. Traders demonstrated widespread skepticism about the impact of the new US economic policy, and expressed fear that US plans for controls on food exports and for reduced tariffs on imports of scarce materials will set back improvement in the US balance of payments. This reaction apparently was also influenced by the absence of specific measures to strengthen the dollar's market performance. The first high-level foreign criticism of the new US measures was voiced by Canadian Finance Minister Turner, who indicated concern that other countries might retaliate against US export controls.

The lira continues to decline under strong market pressure. It depreciated against the dollar by over 2.5 percent yesterday alone, and has fallen by about 10 percent since the dollar devaluation last February. Political problems, a high rate of inflation, and Italian currency speculation through manipulation of trade payments probably are all contributing to the lira's fall. The Bank of Italy had been selling dollars regularly in support of the lira in the last half of May, but stopped intervening in recent weeks when lira selling increased.

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ARGENTINA: President Campora is traveling to Spain today to escort Juan Peron back to Buenos Aires next week. Peron's immediate task will be to arbitrate the differences that have arisen within the Peronist movement and to set a firm course for the government.

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[REDACTED]

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The first three weeks of the Campora government have been marked by at least one armed clash between rival youth groups--ostensibly Peronist--and by the seizure of various government offices by groups seeking to hasten the transition to Peronist administrators and, in some cases, trying to force the appointment of a radical.

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[REDACTED]

Even some of Peron's political opponents now say that he is the only one who can restore order and get things moving. Campora so far has been unable or unwilling to challenge groups that have occupied radio stations, hospitals, and universities, or to reduce the bickering that has stalled appointments to several posts below cabinet level. Only the new economic team headed by Finance Minister Gelbard has made any real progress, instituting

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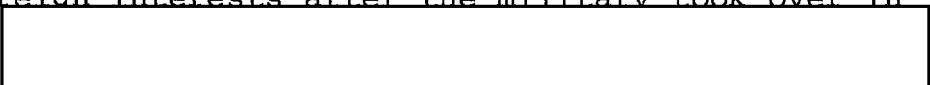
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price controls and getting labor's agreement to belt-tightening measures designed to slow Argentina's high rate of inflation. Other measures pending are aimed at controlling bank deposits and at returning to Argentine control those firms that were acquired by foreign interests after the military took over in 1966. 

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CHILE: President Allende is under new and conflicting pressures from the armed forces and his Popular Unity coalition.

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[Redacted]

The re-entry of the military into the cabinet in force would probably sidetrack the plans of some ranking officers to organize a coup. On the other hand, the demand by military leaders for real influence as ministers would be unacceptable to some UP leaders.

The Communists and Socialists, both determined to repress the increasingly troublesome opposition, do not want the restraining influence of the military in the cabinet. Some party strategists fear that military support may be necessary for the UP to stay in power, but even they want conditions that would appear to be unacceptable to the military.

Allende, heavily dependent on both camps, has worked out such "irreconcilable" differences before, usually to his advantage. This time the task looks much harder. In any event, impeachment proceedings now under way in congress against three key ministers--economy, labor, and mining--will force some cabinet readjustments very soon.

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INDIA: The government's erratic performance in dealing with political and economic problems appears to be reducing popular support for Prime Minister Gandhi's Congress Party, although her personal political position remains secure.

The government's response to the recent drought--in particular the dislocation following the take-over of wholesale wheat trade--has caused widespread criticism. Mrs. Gandhi has recently come under attack for alleged attempts to pack the Supreme Court and muzzle the press. There are demoralizing rumors of corruption at the highest levels of the administration.

In several Indian states, the Congress Party appears to be faltering. This is due in part to the Prime Minister's earlier installation of trusted functionaries, who lack firm control over the grass-roots political mechanism, at the head of several state governments.

The resignation on 12 June of the Chief Minister of Uttar Pradesh, Mrs. Gandhi's home state, and imposition there of "President's Rule" bring to three the number of states where Congress Party governments have been replaced this year by direct rule from New Delhi. The demise of the government in Uttar Pradesh was hastened by the brief uprising of provincial police in that state last month and subsequent clashes between the police and the army--the first such occurrences in India since independence.

Congress Party candidates in several recent by-elections at various political levels have fared poorly, suggesting a general deterioration in popular support for the party. Revived factionalism within the Congress Party caused by ideological disputes as well as by caste and personal rivalries, is further

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weakening the party and eroding Mrs. Gandhi's leadership. Meanwhile, the Communist Party of India, an informal ally of the Congress, has for some time been giving less than full support to the government. Opposition parties, encouraged by the political trend, have become more active.

Despite the recent setbacks, Mrs. Gandhi apparently retains much of her personal popularity and has no serious rival for power within the party. Moreover, the initiative remains firmly in her hands. National elections do not have to be held until 1976 and she can determine whether the new elections now scheduled in several states for early 1974 take place then or are postponed and "President's Rule" extended. She can threaten to undertake a major cabinet overhaul, a tactic she frequently uses to keep powerful cabinet ministers in line. Revamping her administration could also strengthen her somewhat tarnished reputation as an administrator. More beneficial to her and to the Congress Party, however, would be developments over which she has no direct control--a good monsoon in the next few weeks and the early arrival of promised food grains from overseas.

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LIBYA: The government's 12 June deadline for Western oil companies to accept 100-percent participation by Tripoli passed without incident, and negotiations are continuing. Despite the vitriolic demands made by Prime Minister Jallud in a meeting on 9 June, the companies have not improved their offer of a joint production-sharing arrangement. Since that meeting, company representatives have continued to discuss with Oil Minister Mabruk possible areas of compromise, but so far have been unable to find any flexibility in Tripoli's position. Company officials are concerned that the Libyans are overestimating their negotiating strength and may work themselves into a position where they would view nationalization as the only politically acceptable alternative.

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T-62 Medium Tank



BMP Infantry Combat Vehicle



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AFGHANISTAN-USSR: Moscow has introduced a new generation of armored vehicles into Afghanistan. Ten T-62 medium tanks and nine BMP infantry combat vehicles have been observed for the first time near the capital. Kabul is interested in improving its military capabilities for prestige reasons, and because of long-standing frictions with Pakistan. The equipment is likely to be deployed with key units in the capital area.

The T-62 tank carries a more powerful gun and is more advanced than the T-54/55 tanks that make up the main force of Afghanistan's armor. The BMP, a tracked, armored, amphibious vehicle carrying a 76-mm. gun and a Sagger antitank missile, will increase the infantry's firepower and mobility. The armored vehicles probably were ordered under 1971 arms accords, as were recently delivered armored personnel carriers and MI-8 helicopters. The USSR, Afghanistan's sole source of military supply, has provided over \$300 million of weaponry since the late 1950s, ranging from small arms and ammunition to jet fighters and surface-to-air missiles.

Afghanistan may have difficulty integrating the new vehicles into its army. The receipt of sophisticated equipment from the Soviets in the past has presented Kabul with training and logistic problems, despite the presence of about 200 Soviet advisers and instructors.

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